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Municipal Finances and Community Planning

A Submission to the

Ontario Committee on Taxation

by the Executive of the

Central Ontario Chapter, Town Planning Institute of Canada

1. Introduction

The Town Planning Institute of Canada is the professional association representing some 470 people engaged, as public servants or as private consultants, in the practice of community and regional planning across Canada. The Central Ontario Chapter of the Institute comprises those members in Metropolitan Toronto and vicinity.

The Chapter is professionally concerned with the wise use of land and the creation of an efficient and attractive environment for living and working. We note that "the Ontario Committee on Taxation was appointed to review the taxes and revenues available to the Province of Ontario and its local governments" and that "the Committee expects to make suggestions about the tax and revenue structure which will allow money to be raised in a manner which is as equitable and conducive to the continuing economic prosperity of the province as possible". * We respectfully submit that the careful and efficient use of our most basic resource - land - and the orderly and economical physical development and redevelopment of urban, rural and regional communities are important elements in the economic prosperity of the province as a whole. We further submit that it is desirable and proper that the creation of a safe, humane and attractive physical environment should be regarded as an important objective of social policy and thus, at least indirectly, of fiscal policy too.

In this submission we propose to show how the manner of raising municipal revenue may bear upon these issues and to draw to your attention some of the implications of this relationship. It is not our purpose to set out in detail either technical analyses of the problems with which we are concerned or proposals for solving them, as we do not believe this to lie within our professional competence. We wish, however, respectfully to request your consideration of the fact that the financing of the operations of local government can and does have side effects which are not widely perceived and whose importance is seldom appreciated.

2. The "Tax Base" Problem

If we define a community as a geographic area in which there is an intensive pattern of everyday personal and economic activities, it is apparent that the physical scale of the community is constantly growing and now extends far beyond the limits of the local neighbourhood, at least to the boundaries of the continuous urban area and in some

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* Ontario Committee on Taxation Information Memorandum No. 1, p.1

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1. Introduction

The Town Planning Institute of Canada is the professional organization [illegible] engaged, as public servants or private consultants, in the promotion of community and regional planning across Canada. The Central Ontario Chapter of the Institute comprises those members in Metropolitan Toronto and vicinity.

The Chapter is particularly concerned with the wise use of land and the creation of an efficient and attractive environment for living and working. We note that the Ontario Committee on Taxation was appointed to review the taxes and revenues available to the Province of Ontario and its local governments" and that "the Committee may also wish to take cognizance about the tax and revenue structure which will be conducive to the continuing economic prosperity of the province as a whole". * The geographically widely dispersed and still abundant nature of our most basic resource - land - and the orderly and economical physical development and redevelopment of urban, rural and regional communities are important elements in the economic prosperity of the province as a whole. We further submit that it is desirable and proper that the distribution of taxes, income and intergovernmental payments should be regarded as an important and determining factor in the location of social policies and thus, indirectly, of local policy [illegible].

In this submission we propose to show the degree of relationship between land use and the taxation system and to draw to your attention some of the implications of this relationship. It is not our purpose to set out to decry either results or analyses of the present system of taxation or revenue or expenditure, but rather to point out that in the context of existing and anticipated conditions we do not believe this to be within our professional competence. We wish, however, respectfully to request your consideration of the fact that the timing of the operations of local governments can and does have wide effects which are not widely perceived and whose importance is rather underrated.

2. The Local Problem

If we define a community as a geographic area in which there is an interlocking pattern of everyday personal and economic activities, it is apparent that the physical scale of the community is constantly growing and now extends far beyond the limits of the local municipality, at least to the boundaries of the continuous urban area and in some

* Ontario Committee on Taxation Information Memorandum, p. 1

respects even to a much broader region. It is apparent too that existing municipal boundaries often no longer bear any relationship to the true limits of the community. It cannot be disputed, for example, that Metropolitan Toronto is a single community as we have defined the term, yet it comprises thirteen municipalities which until ten years ago pursued their own courses largely independently of each other.

Within a single urban or regional community each municipality raises its own revenue. On average, over half this revenue is derived from taxes based on property assessment,* yet the source of this revenue is very unevenly distributed, some municipalities having much and others little of the industrial and commercial properties which provide tax surpluses to set against the high costs of providing services to residential areas. This affects the physical development of the community as a whole in two ways. First, the municipality that does not have a "fair" share of the industrial and commercial assessment possessed by the community as a whole will have difficulty in providing desirable and possibly even essential services, to the detriment of its character and ultimately to the disadvantage of the wider community. Second, industrial and commercial development, particularly the former, becomes a glittering financial prize, bringing about what has been called "the scramble for industrial tax base", in which considerations of orderly and harmonious municipal development take second place, generally a bad second, to the enticement of added tax revenues, while the orderly and harmonious development of the community as a whole is not even thought of. Thus we find pleasant residential suburbs seeking to attract industrial plants, off-street parking requirements thrown out of the window to entice massive office buildings, and ribbon commercial development compounding highway congestion with the blessing of the municipal council. Conversely, the same council may oppose the creation of new roads, parks and other features essential to the proper functioning and the economic and social health of the community, on the grounds that they not only involve additional expenditures but simultaneously reduce revenues through the removal of property from the assessment role.*

Ultimately more importantly, perhaps, we find that in the region or urban area as a whole an industrial and commercial pattern develops that bears only a tenuous relationship to the dictates of sound functional and economic organization.

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* Ontario Committee on Taxation Information Memorandum No. 2 Appendix III

* This argument may well be irrational, if the alternative to, say, a park is low-density, moderate cost housing which will cost the municipality more in services than it provides in taxes; but it is often conclusive even in such cases.

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* Option 1 corresponds to Recommendation No. 1 Appendix III

* Option 2 corresponds to Recommendation No. 2 Appendix III

3. Taxation and Urban Development

It is almost axiomatic that the dependence of local government on tax revenue based upon the valuation of land and buildings must have some influence upon the use of the land and the nature of the buildings. Exactly what those effects are has not been completely and clearly established due to their complexity, but it is argued that the system prevalent in Canada, the separate assessment of land and buildings, rewards the owner of speculative land or derelict property, while penalizing improvements and good maintenance. The corollary to this, it is claimed, is that tax revenues should be raised from the land alone, taxing the speculator into realizing the potential of his site and pricking the bubble of inflated land prices, and relieving the investor of the need to pay an impost upon his enterprise and the ordinary citizen from being taxed for improving his home. The issue is, however, a complicated one, and among other considerations it needs to be said that a real property tax based on land values alone would have to be closely related to an effective community plan. The essence of such a system is that land would be taxed according to its true development potential; thus the assessments should reflect the judgements and policies embodied in the plan as to the optimum uses of the different parts of the urban complex.

This is merely one approach to the relationship between taxation and physical development. We recognize, indeed we emphasize, that the issue is far from clear-cut and that many qualifications and caveats attach to the site value taxation theory. We recognize also that the primary purpose of taxation is to raise revenue and that arguments for changes in the form of the property tax cannot rest solely on considerations of its development effects. Nevertheless we submit that the fact that it does have such effects should not be neglected. It is fair to suggest that the relationship between the property tax and urban development and redevelopment is analogous to the relationship between corporation and income tax and the economy as a whole, to the extent that its weight and incidence help to determine the direction, degree and character of growth and change.

4. Taxation and Suburban Development

Around the larger urban areas are the rural townships into which the spreading suburban fringe is beginning to penetrate, creating a need for new services - and new revenues. Many studies conducted in Canada and elsewhere show beyond the possibility of argument that the general run of suburban housing comes nowhere near covering the costs it creates by the tax revenue it produces. This is true even when it is effectively controlled and efficiently planned, which, due to the unpreparedness and inexperience of rural councils and planning boards (if any), it seldom is. Consequently, an increasing burden of taxation is thrust upon the shoulders of the rural taxpayer to meet the costs of services from which he does not benefit. The rising mill rate, often compounded by increased assessments, leads to the sale of more land to developers and speculators to an extent often far beyond reasonable short-term urban expansion requirements. Farmland

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4. Taxation and Suburban Development

Around the larger urban areas are the rural townships into which the sprawling suburban fringe is beginning to penetrate, creating a need for new services - and new revenues. Many studies conducted in Canada and elsewhere show beyond the possibility of argument that the normal run of suburban housing never pays its way in taxes, while it is true even when it is effectively controlled and efficiently planned, which, due to the municipalities and inexperience of rural councils and planning boards (if any), it seldom is. Consequently, an increasing burden of taxation is thrust upon the shoulders of the rural taxpayer to meet the costs of services from which he does not benefit. The viable mill rate, often compounded by increased assessment, leads to the sale of more land to developers and speculators to an extent often far beyond reasonable short-term urban expansion requirements. Farmland

is taken out of productive use, and the pattern of development which results is scattered, inefficient, unattractive, uneconomic and generally unsound - a vicious cycle with a vengeance.* Again, the municipal taxation system is a key element in the problem. In at least one province official consideration has been given to "freezing" taxes on bona fide farmland, but even if this were practicable it would not solve - indeed, it would seriously aggravate - the municipality's problem of paying for the services which it must provide for the benefit of suburbs of the central city.

5. Physical and Financial Planning

In addition to, and in part underlying, the physical consequences of municipal dependence upon revenue derived from real property, is the general lack of co-ordination between financial and physical planning. This deficiency manifests itself in two particularly important respects.

First, there is no necessary connection between zoning and assessment: that is, property may be valued for taxation purposes on a basis which bears no relationship to municipal land use policies as expressed in the zoning by-law. For example, a tract of land may be assessed on the basis that it has potential value for residential development even though planning policies call for its retention as farmland or perhaps allocate it to industrial use. Thus two instruments of local government may pull in opposed directions, and the results may well be to thwart or seriously distort sound long-term land use policies.

Second, the capital budget is often formulated with little regard for the official plan, and vice versa. Yet these two instruments are both expressions of municipal expectations and intentions relating in large part to the same things, notably to the municipal programme for the provision of physical services and facilities. It should be axiomatic that the official plan should be tailored to match the budget and the budget in turn, designed to implement and reincorce the plan. If this is not the case, the plan will be weakened and the budget an exercise in expediency.

6. Summary

We have drawn attention to some of the implications of the dependence of local government on real property as a source of revenue: the competition for tax base, leading to a concern for quantity of development rather than for quality; the inequities resulting from the distribution of different kinds of land use in relation to municipal boundaries within a single urban or regional community; the complex ways in which the basis of taxation affects land values, urban development and redevelopment; and the special problems which arise on the urban fringe. We have also commented on the frequent absence of co-ordination between physical and financial planning.

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* See Economic Aspects of Urban Sprawl (1956) and the Urban Frontier (1963), Lower Mainland Regional Planning Board of B.C., and L.O. Gertler and J. Hind-Smith, "The Impact of Urban Growth on Agricultural Land: A Pilot Study; Resources for Tomorrow Background Papers, Supplementary Volume; Ottawa, Queen's Printer, 1962, P.155.

We do not suggest that this is the full tally of problems arising from the relationship between municipal finance and physical development, for this relationship is complex and many-faceted. We believe, however, that the instances which we have described furnish abundant evidence that such problems do exist and that they are of such importance that the interests of sound municipal finance and of orderly and efficient urban development alike demand that solutions to them be found. As a basis upon which such solutions may be sought, we put forward three general propositions which emerge inescapably from the foregoing discussion.

(1) The present system of municipal finance originated at a time when the nature and scale of the problems and responsibilities of local government were very different from what they are today. This system remained basically unchanged while the physical and social order changed radically. As a result, the rationality and equitableness of the system under contemporary conditions is now questionable, but it is certainly beyond question that under these conditions the system does have consequences and implications which could not have been foreseen when it was devised and which even now are not by any means fully appreciated. It is not too much to say not only that municipal finance is antiquated but that our approach and attitude toward it is obsolete. At the provincial and federal levels it is accepted that fiscal policies have profound effects upon the economy and upon the welfare of the public and that they must be formulated with these effects in mind and not considered merely in terms of raising revenue. At the municipal level such an attitude is almost unheard of. We believe that it is essential in the public interest that government, both provincial and local, should recognize that the manner in which municipal revenues are obtained can have important effects upon physical development, and this in turn upon the economic, financial and social well-being of the community; and we believe that it is imperative that these effects be carefully studied and identified if tax policies are to be formulated in such a way as to be in the best ultimate public interest.

(2) Since the somewhat haphazard partitioning of a single urban or regional community into several autonomous political units, coupled with the eagerness of each of those units to attract certain kinds of development for the revenue they provide, not only perpetuates the inequitable distribution of municipal financial resouces but frustrates or distorts all efforts to establish a rational and functional pattern of land use in the community as a whole, it is only possible to conclude that either the structure of municipal government or the basis of municipal revenue, or both, should be changed. Tax reform might help to alleviate the problems, but it

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may be questioned whether any system of taxation would be entirely equitable, or could operate without interfering with rational land use planning, while the taxes are raised by and for politically separated fragments of a functionally unified community. For example, while present arrangements lead municipalities to compete for industrial and commercial "tax base", a radical alteration in the manner in which municipal revenues are obtained, unaccompanied by other reforms, might well bring about exactly the opposite situation, with potentially serious economic results. In other words, we suggest, municipal tax reforms are unlikely to be fully effective unless accompanied by the creation of units of local government that correspond to economic, social and physical realities.

(3) Since the municipalities are the creatures of the province, exercising provincial authority delegated to them by the provincial government, the province has the responsibility of ensuring that they administer their affairs intelligently and efficiently. This responsibility is clearly recognized in many fields by the controls and oversight exercised by the province over the operations of local government. In addition, the provincial government has the general responsibility to the citizens of the province of ensuring that public monies are not wasted. The Province of Ontario spends hundreds of millions of dollars from its own tax revenues each year on grants and subsidies to municipalities amounting on average to well over a third of their incomes.* Since a municipality cannot plan its financial affairs properly, and thus cannot conduct its operations economically, if it does not plan its physical development - not only its own capital works but also the private development which from year to year will add to the demand for municipal services and for schools - it would seem to be only a proper exercise of the province's responsibility to disburse public funds wisely and providently if it were to favour those municipalities that have a sound and effective phyrical planning programme and are implementing it intelligently and energetically.

7. Conclusion

As we stated at the beginning, it is not our purpose, or indeed within our competence, to prescribe solutions to the problems we have described. This is a task which can far better be performed by the Committee itself. But we do wish to assert that any changes which may be contemplated in the ways in which the operations of local government are financed must take account of these problems if they are to make a sound and enduring contribution to the commonweal of government in Ontario.

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* Ontario Committee on Taxation Information Memorandum No. 2, Appendix III

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